

Smartshares

Chair's Report

PERFORMANCE IN YEAR ENDED 31 MARCH 2012

After a solid performance in the year ended March 2011 all funds, with the exception of smartTENZ, have struggled to achieve those same solid returns, with performances impacted by ongoing global economic turmoil.

The European debt crisis has been the prime source of market weakness and had a particularly negative impact on all global markets throughout the second half of 2011. The New Zealand indices proved to be relatively resilient in the face of extreme volatility with those indices recovering from a rough ride, particularly in Q3 2011, finishing above levels seen on 1 April 2011. The Australian indices did not fair as well, impacting on the performance of the smartOZZY and smartMOZZY. The poor performance of the Australian indices combined with a soaring NZD meant a challenging year for the Australian funds.

PERFORMANCE INFORMATION FOR THE FUND

	Average Annual Total Returns		Gross Dividend Yield
	Year to 31 Mar 2012	Inception to 31 Mar 2012	Year to 31 March 2012
TENZ	7.69%	3.51%	5.38%
MIDZ	2.03%	5.48%	3.49%
FONZ	2.19%	2.05%	4.80%
OZZY	-2.37%	9.17%	4.22%
MOZY	-14.93%	6.75%	3.43%

Of all the funds smartTENZ was the stand out continuing its solid performance in the year ended 2012 with almost identical total returns as achieved in the year ended 2011. While still in positive territory, smartMIDZ and smartFONZ total returns were down. All of the funds continue to provide high dividend yield, particularly those based on New Zealand stocks.

Despite the global economic struggles in recent years, all funds continue to show good average total returns since inception which augurs well for the long term investor.

SECURITIES LENDING

As mentioned in last years Chair report Smartshares launched a securities lending programme for smartTENZ, smartMIDZ, and smartFONZ in 2010. It is worth mentioning this programme again as the income received and paid out to investors is growing. Total stock lending fees generated from these funds in 2012 is up on the year ended 2011 and is tracking upwards. Smartshares has strict procedures in place for the lending of securities with regular reviews carried out to monitor this programme.

Smartshares is committed to delivering customers market returns at a competitive cost and with complete transparency, and we continue to develop new initiatives for the funds to support those core principles.

I would like to thank you for your continued support of Smartshares and encourage you to contact the team with any questions you may have regarding the funds. We look forward to being of continued service to you as a valued Smartshares investor.

K JAGGARD CHAIR

SMARTSHARES LIMITED

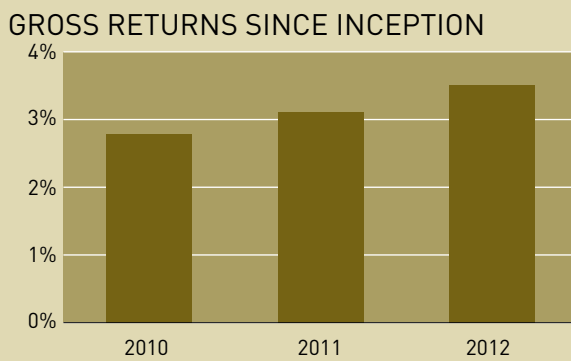
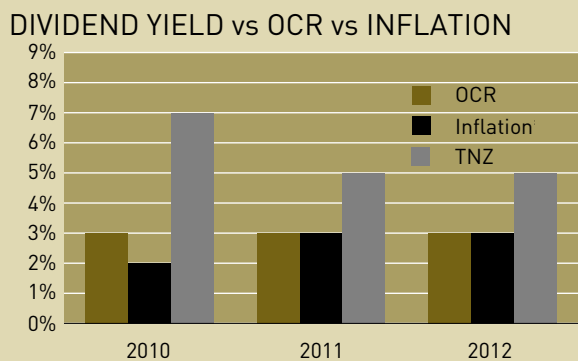
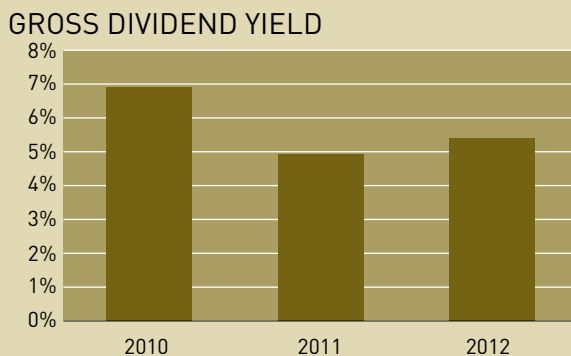
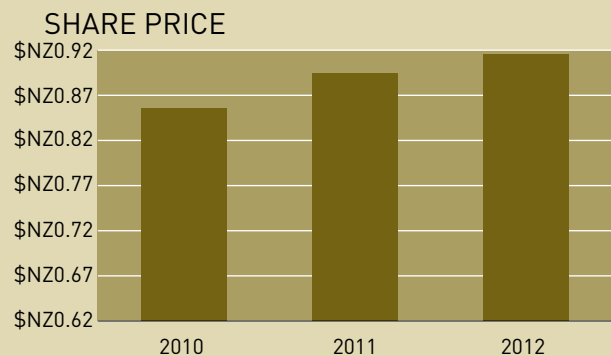


NZX 10 Fund (smartTENZ)

Performance for the Financial Year ended 31 March 2012

HIGHLIGHTS

	March 2012	March 2011
NTA	0.911	0.887
Price	0.915	0.894
(Discount) Premium	(0.004)	(0.006)
Full Year Dividend	\$0.049	\$0.045
Gross Dividend Yield	5.38%	4.92%
Gross Return		
- 1 yr	7.69%	7.71%
- (Inception)	3.51%	3.11%
Funds Under Management	\$50,996,913	\$68,749,721





NZX 10 Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
Presented by Smartshares Limited, Manager of the NZX 10 Fund

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
INCOME			
Dividends		3,018	2,805
Securities lending income	7	15	11
Net changes in fair value of financial assets		662	1,833
Total Net Income		3,695	4,649
EXPENSES			
Management fees	7	336	343
Total Expenses		336	343
Net Profit/(Loss) before Tax		3,359	4,306
Tax expense/(refund)	4	(52)	140
Net Profit/(Loss) after Tax		3,411	4,166

STATEMENT IN CHANGES IN UNITHOLDERS FUNDS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
Opening Unitholders Funds		68,230	56,692
Net profit/(loss) after tax		3,411	4,166
Net subscriptions (redeemed)/allotted	5	(19,111)	9,649
Distributions accrued to Unitholders	6	(2,450)	(2,277)
Closing Unitholders Funds		50,080	68,230

These financial statements should be read in conjunction with the notes on pages 9-16

BALANCE SHEET
AS AT 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CURRENT ASSETS			
Cash and cash equivalents		1,568	1,291
Taxation receivable		102	16
Accounts receivable		791	487
Total Current Assets		2,461	1,794
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	49,911	68,013
Total Non-Current Assets		49,911	68,013
Total Assets		52,372	69,807
CURRENT LIABILITIES			
Other current liabilities		4	-
Management fees payable	7	27	32
Funds held for unit purchases		17	11
Distribution payable to Unitholders	6	2,244	1,534
Total Liabilities		2,292	1,577
Unitholders Funds		50,080	68,230
Total Liabilities and Unitholder Funds		52,372	69,807

These financial statements should be read in conjunction with the notes on pages 9-16

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 28 May 2012.



K JAGGARD CHAIR
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		2716	2,750
Securities lending income received	7	14	9
Cash inflows from operating activities		2730	2,759
CASH WAS APPLIED TO:			
Management fees paid	7	(343)	(331)
Taxation (paid)/received directly by the Fund		(33)	(329)
Cash outflows from operating activities		(376)	(660)
Net Cash Flows from Operating Activities		2,354	2,099
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Net repayments to/(from) the Manager		4	3
Cash inflows/(outflows) from investing activities		4	3
CASH WAS APPLIED TO:			
Purchase of investments		(795)	(107)
Cash inflows/(outflows) from investing activities		(795)	(107)
Net Cash Flows from Investing Activities		(791)	(104)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		454	267
Cash inflows from financing activities		454	267
CASH WAS APPLIED TO:			
Distributions paid to Unitholders	6	(1,239)	(1,099)
Distributions paid for dividend reinvestment	6	(501)	(532)
Cash outflows from financing activities		(1,740)	(1,738)
Net Cash Flows from Financing Activities		(1,286)	(1,471)
Net Increase in cash held		277	631
Opening cash balance		1,291	660
Cash at End of Period		1,568	1,291
RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		3,411	4,166
LESS NON-CASH ITEMS:			
Net changes in fair value of Investments		(662)	(1,833)
Operating movement in taxation payable/receivable		(86)	(175)
Movement in management fees payable		5	(9)
Movement in accounts receivable		(314)	(50)
Net Cash Flows from Operating Activities		2,354	2,099

These financial statements should be read in conjunction with the notes on pages 9-16

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX 10 Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 7 May 1996. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments, security lending income received less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Manager') tracking the NZX 10 Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are quoted on the NZX Main Board. Investments in equity securities are valued at fair value according to last bid prices on the NZX Main Board on 31 March 2012 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), which complies with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies, (refer Notes 2.2 and 2.4).

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities in the Cash Flow Statement includes all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions to and from, or cash distributions to the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of units by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 30 March) and 19 October (record date 28 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8, after the deduction of management fees. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

2.8 SECURITIES LENDING

The Fund enters into Securities Lending transactions whereby it transfers assets recognised on its Balance Sheet, but retails either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

2.9 SEGMENT INFORMATION

The Fund operates solely in the business of investment management, investing in New Zealand equities.

2.10 CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.

3. FINANCIAL RISK MANAGEMENT

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The financial instruments not accounted for at fair value through the profit and loss are short-term financial assets and liabilities whose carrying amounts approximate fair value.

FINANCIAL INSTRUMENTS BY CATEGORY

Loans and receivables	2012	2011
	\$000	\$000
Trade and other receivables	791	487
Cash and cash equivalents	1,568	1,291
Financial Assets at fair value through profit and loss	\$000	\$000
Investments in equity held at fair value	49,991	68,013
Other financial liabilities	\$000	\$000
Funds held for unit purchase	17	11
Other payables	31	32
Distribution payable to Unitholders	2,244	1,534

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and security lending risk. The Fund does not have exposure to currency risk or interest rate risk. The risk management policies used by the Fund are detailed below:

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Manager does not manage this risk. A 10% increase/decrease of equity prices as at 31 March 2012 would increase/decrease profit and Unitholder funds by \$5,000 (March 2011: \$6,800).

Notes to the Financial Statements

Continued

3.2 CREDIT RISK

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	2012 \$000	2011 \$000
Cash	1,568	1,291
Accounts receivable	791	487
Investments in equity securities at fair value	49,911	68,013

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are quoted on the NZX Main Board.

3.4 SECURITIES LENDING RISK

The potential risks associated with securities lending include, but are not limited to, the following:

- ▶ Borrower credit risk and settlement risk
- ▶ Failure of the central counterparty settlement system
- ▶ Operational & legal risk

In order to limit the Fund's exposure to risk that may arise as a result of securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time. Individual or multiple securities can be lent at any given time, for a minimum of one day. Fees are charged accordingly.

At 31 March 2012, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. On the 31 March 2012 the amount of securities the Fund had on loan to the NZCL was \$4,714,613 (March 2011: \$1,132,100).

4. TAXATION

	2012 \$000	2011 \$000
INCOME TAX EXPENSE		
Net profit/(loss) before tax	3,359	4,306
Add back decrease/(increase) in net changes in fair value of financial assets	(662)	(1,833)
Non-taxable income	(87)	(101)
Accrued dividends movement	(302)	(55)
Gross up of imputation credits	940	789
Taxable income	3,248	3,106
Taxation at 28% (Mar 11:30%)	909	932
Less imputation credits and foreign income tax credits	(964)	(791)
Prior period adjustment	3	(1)
Tax expense	(52)	140
IMPUTATION CREDITS		
Opening balance	949	538
Imputation credits received during the period	940	789
Net tax paid/(refunded) during the period	33	316
	1,922	1,643
Credits attached to distributions paid	(658)	(694)
Closing Balance	1,264	949

The tax rate used in the above reconciliation is the corporate tax rate of 28% (March 2011: 30%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Unitholders Funds.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders Mar 2012 \$000	Total attributed to Unitholders Mar 2011 \$000
Opening Distribution payable	1,534	898
Distribution accrued to Unitholders	2,450	2,277
	3,984	3,175
Distributed to Unitholders	(1,740)	(1,641)
Closing Distribution payable	2,244	1,534

7. RELATED PARTIES

The Manager receives management fees directly from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year to 31 March 2012 amounted to \$336,000 (March 2011: \$343,000), with \$27,000 (March 2011: \$32,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2012 the Fund has receivable from Smartshares Limited of \$4,000 (March 2011: \$nil).

The Fund has entered into a securities lending agreement with New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2012 the amount of securities the Fund had on loan to the Clearing House was \$4,714,613 (March 2011: \$1,132,100). Total security lending fees for the year ended 31 March 2012 amounted to \$15,000 (March 2011: \$11,000), with accrued fees due to the Fund of \$3,000 (March 2011: \$1,000).

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2012 was \$3,000 (March 2011: \$3,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2012

Company	Number of securities	Fair Value (\$)
Auckland International Airport Limited	2,610,461	6,395,629
Contact Energy Limited	1,395,222	6,557,543
Chorus Limited	760,070	2,789,457
Fletcher Building Limited	1,343,635	9,042,664
Fisher & Paykel Healthcare Limited	1,046,213	2,333,055
Infratil Limited	1,167,359	2,206,309
Ryman Healthcare Limited	986,894	3,049,502
SKYCITY Entertainment Group Limited	1,138,793	4,429,905
Sky Network Television Limited	751,193	3,891,180
Telecom Corporation of New Zealand Limited	3,800,385	9,215,934
		49,911,177

All Investments are designated at inception as being at fair value through the profit or loss. The fair value of Investments is calculated using the last bid price on the relevant trading day. The fair value of Investments held at 31 March 2012 was \$49,911,177 (March 2011: \$68,013,134). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

9. UNITHOLDERS' FUNDS

As at 31 March 2012 there were 55,965,703 (March 2011: 76,901,254) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2012 was \$0.9112 (March 2011: \$0.8960).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2012 was \$0.9082 (March 2011: \$0.8933).

The Fund's capital is represented by units issued and is shown in the Balance Sheet as Unitholder Funds. Refer to note 2.4 for a description of the term of the units. The Fund is not subject to any externally imposed capital requirements.

Notes to the Financial Statements

Continued

10. FAIR VALUE

Financial instruments measured at fair value can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments measured at fair value of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2012.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at 31 March 2012 (Mar 2011: nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2012, and have not been applied in preparing the financial statements. The impact of any changes has not yet been determined.

- ▶ Harmonisation Amendments – various amendments effective for periods beginning on or after 1 July 2011;
- ▶ FRS 44 New Zealand Additional Disclosures – Effective for annual reporting periods beginning on or after 1 July 2011;
- ▶ NZ IFRS 9 Financial Instruments - Effective for annual reporting periods beginning on or after 1 January 2015;
- ▶ NZ IFRS 13 Fair Value Measurement Statements – Effective for annual reporting periods beginning on or after 1 January 2013;

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 30 APRIL 2012

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	143	5.75%	28,724	0.05%
1,001 to 5,000	522	20.98%	1,479,312	2.66%
5,001 to 10,000	695	27.93%	5,325,136	9.59%
10,001 to 100,000	1,099	44.17%	26,440,880	47.62%
100,001 and above	29	1.17%	22,254,349	40.08%
Total	2,488	100.00%	55,528,401	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 30 APRIL 2012

Full Name	Total	Percentage
New Zealand Central Securities Depository Limited	10,219,491	18.40%
Investment Custodial Services Limited (C A/C)	4,640,268	8.36%
Accordia Nominees Limited	840,931	1.51%
Custodial Services Limited (3 A/C)	767,228	1.38%
Custodial Services Limited (2 A/C)	597,062	1.08%
Eeshala Nominees Limited	506,020	0.91%
Roger Arthur Cornish & Nancy Joan Cornish	500,000	0.90%
Mohua Limited	473,768	0.85%
Maori Investments Limited	379,291	0.68%
Thomas W Schnackenberg & Annette H Schnackenberg	283,273	0.51%
Custodial Services Limited (8 A/C)	279,476	0.50%
Custodial Services Limited (18 A/C)	245,057	0.44%
Bruce Moncur Stewart	203,982	0.37%
JB Were (NZ) Nominees Limited (51750 A/C)	194,995	0.35%
Julian Charles Stanley Smith & Trevor Donald Scott & John Murray Fox	180,664	0.33%
Diana Renker	170,012	0.31%
Kathryn May Kelly & David Anderson Smith (Kelly Dickson A/C)	169,743	0.31%
David anderson Smith & Graeme Albert Smaill (Logan Leith No 2 A/C)	169,743	0.31%
Wallace John Semmens & Rose Agnes Semmens & Ernest William Gartrell	168,325	0.30%
Tania Natasha Tikus Murray & Neil Lawrence Murray & Brown Street Trustees Ltd (Piqqadown A/C)	168,159	0.30%
FNZ Custodians Limited	154,319	0.30%
	21,311,807	38.40%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 31 March 2012 there were no substantial holders in the Fund. The total number of units on issue at 31 March 2012 was 55,965,703.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2012

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009; resigned 17 August 2011)	-	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010; resigned 06 September 2011)	-	-
Kristin Brandon (appointed 17 August 2011)	-	-
Kathryn Jaggard (appointed 5 September 2011)	-	-
Erich Livengood (appointed 5 September 2011)	-	-

WAIVERS GRANTED

The Special Division of the New Zealand Markets Disciplinary Tribunal has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2012:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules.
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors.
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- 11.2.3 – Statements after Issues or Transfers.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

To the Unitholders of NZX 10 Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX 10 Fund ("the Fund") on pages 6 to 16. The financial statements comprise the balance sheet as at 31 March 2012 and the statements of comprehensive income, changes in unitholders funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX 10 Fund on pages 6 to 16:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2012 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX 10 Fund as far as appears from our examination of those records.

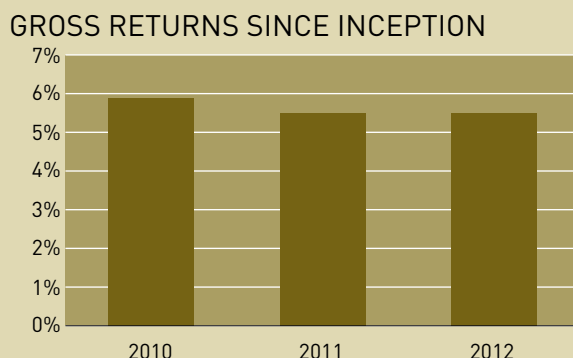
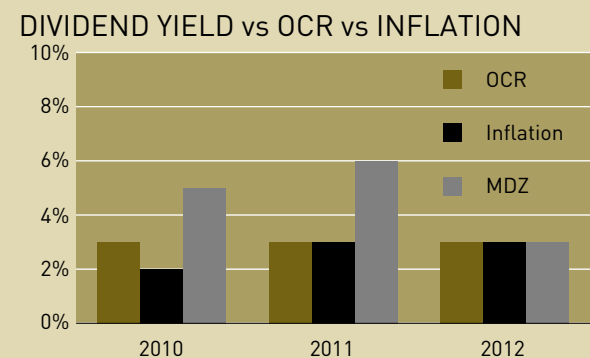
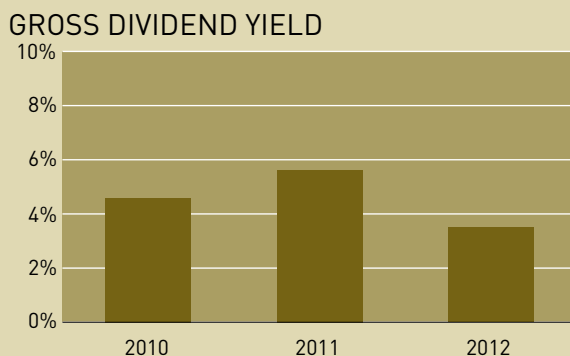
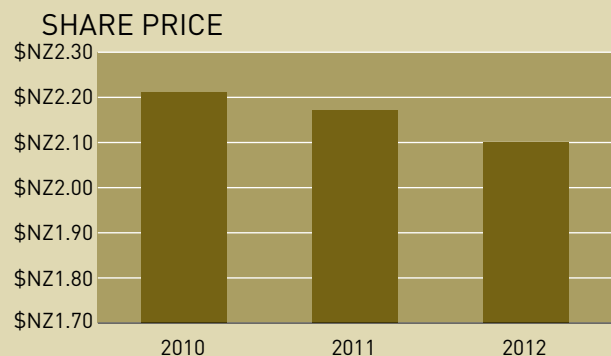
28 May 2012
Wellington

NZX Midcap Index Fund (smartMIDZ)

Performance for the Financial Year ended 31 March 2012

HIGHLIGHTS

	March 2012	March 2011
NTA	2.109	2.150
Price	2.100	2.170
(Discount) Premium	(0.009)	0.020
Full Year Dividend	\$0.075	\$0.124
Gross Dividend Yield	3.49%	5.63%
Gross Return		
- 1yr	2.03%	4.54%
- (Inception)	5.48%	5.50%
Funds Under Management	\$34,407,898	\$36,055,609





NZX Midcap Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
Presented by Smartshares Limited, Manager of the NZX Midcap Index Fund

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
INCOME			
Dividends		1,639	1,899
Securities lending income	7	3	1
Net changes in fair value of financial assets		(1,198)	(1,180)
Total Net Income		444	720
EXPENSES			
Management fees	7	266	282
Total Expenses		266	282
Net Profit/(Loss) before Tax		178	438
Tax expense/(refund)	4	(56)	28
Net Profit/(Loss) after Tax		234	410

STATEMENT OF CHANGES IN UNITHOLDERS FUNDS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
Opening Unitholders Funds		35,724	37,451
Net profit/(loss) after tax		234	410
Net subscriptions (redeemed)/allotted	5	(641)	(511)
Distributions accrued to Unitholders	6	(1,447)	(1,626)
Closing Unitholders Funds		33,870	35,724

These financial statements should be read in conjunction with the notes on pages 25-32

BALANCE SHEET
AS AT 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CURRENT ASSETS			
Cash and cash equivalents		1,362	1,361
Accounts receivable		120	162
Taxation receivable		93	112
Total Current Assets		1,575	1,635
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	33,970	35,807
Total Non-Current Assets		33,970	35,807
Total Assets		35,545	37,442
CURRENT LIABILITIES			
Management fees payable	7	22	24
Funds held for unit purchases		50	51
Other current liabilities	7	-	2
Distribution payable to Unitholders	6	1,603	1,641
Total Liabilities		1,675	1,718
Unitholders Funds		33,870	35,724
Total Liabilities and Unitholder Funds		35,545	37,442

These financial statements should be read in conjunction with the notes on pages 25-32

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 28 May 2012.



K JAGGARD CHAIR
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		1,682	1,936
Securities lending income received	7	3	1
Cash inflows from operating activities		1,685	1,937
CASH WAS APPLIED TO:			
Tax received/(paid) directly by the Fund		75	(65)
Management fees paid	7	(268)	(283)
Cash outflows from operating activities		(193)	(348)
Net Cash Flows from Operating Activities		1,492	1,589
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS (PROVIDED FROM)/APPLIED TO:			
Purchase of investments		(363)	(449)
Net repayments (from)/to the Manager	7	(4)	2
Cash inflows/(outflows) from investing activities		(367)	(447)
Net Cash Flows from Investing Activities		(367)	(447)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		360	392
Cash inflows from financing activities		360	392
CASH WAS APPLIED TO:			
Distributions paid to Unitholders	6	(762)	(678)
Distributions paid for dividend reinvestment	6	(723)	(409)
Cash outflows from financing activities		(1,485)	(1,536)
Net Cash Flows from Financing Activities		(1,125)	(1,144)
Net increase/(decrease) in cash held		0	447
Opening cash balance		1,362	915
Cash at End of Period		1,362	1,362
RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		234	410
LESS NON-CASH ITEMS:			
Net changes in fair value of Investments		1,198	1,180
Operating movement in taxation receivable		20	37
Movement in management fee payable		(2)	(1)
Movement in accounts receivable		42	(37)
Net Cash Flows from Operating Activities		1,492	1,589

These financial statements should be read in conjunction with the notes on pages 25-32

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX Midcap Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 7 May 1996. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments, security lending income received less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Manager') tracking the NZX Midcap Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are quoted on the NZX Main Board. Investments are valued at fair value according to last bid prices on the NZX Main Board on 31 March 2012 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), which complies with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Investments at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies, (refer Notes 2.2 and 2.4).

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities in the Cash Flow Statement include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions to and from, or cash distributions to the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 30 March) and 19 October (record date 28 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8 after the deduction of management fees. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

2.8 SECURITIES LENDING

The Fund enters into Securities Lending transactions whereby it transfers assets recognised on its Balance Sheet, but retails either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

2.9 SEGMENT INFORMATION

The Fund operates solely in the business of investment management, investing in New Zealand equities.

2.8 CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.

3. FINANCIAL RISK MANAGEMENT

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The financial instruments not accounted for at fair value through the profit and loss are short-term financial assets and liabilities whose carrying amounts approximate fair value.

FINANCIAL INSTRUMENTS BY CATEGORY

	2012 \$000	2011 \$000
Loans and receivables		
Trade and other receivables	120	162
Cash and cash equivalents	1,362	1,361
Financial Assets at fair value through profit and loss	\$000	\$000
Investments in equity held at fair value	33,970	35,807
Other financial liabilities	\$000	\$000
Funds held for unit purchase	50	51
Trade and other payables	22	26
Distribution payable to Unitholders	1,603	1,641

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and security lending risk. The Fund does not have exposure to currency risk or interest rate risk. The risk management policies used by the Fund are detailed below:

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Manager does not manage this risk. A 10% increase/decrease of equity prices as at 31 March 2012 would increase/decrease profit and Unitholder funds by \$3,400 (March 2011: \$3,600).

Notes to the Financial Statements

Continued

3.2 CREDIT RISK

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	Mar 2012 \$000	Mar 2011 \$000
Cash	1,362	1,361
Accounts receivable	120	162
Investments in equity securities held at fair value	33,970	35,807

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are quoted on the NZX Main Board.

3.4 SECURITIES LENDING RISK

The potential risks associated with securities lending include, but are not limited to, the following:

- ▶ Borrower credit risk and settlement risk
- ▶ Failure of the central counterparty settlement system
- ▶ Operational & legal risk

In order to limit the Fund's exposure to risk that may arise as a result of securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time. Individual or multiple securities can be lent at any given time, for a minimum of one day. Fees are charged accordingly.

At 31 March 2012, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. On the 31 March 2012 the amount of securities the Fund had on loan to the NZCL was \$244,312 (March 2011: \$608,000).

4. TAXATION

	2012 \$000	2011 \$000
INCOME TAX EXPENSE		
Net profit/(loss) before tax	178	438
Add back decrease/(increase) in net changes in fair value of financial assets	1,198	1,180
Accrued dividends movement	42	36
Non-taxable income	(482)	(532)
Other	-	-
Gross up of imputation credits	422	436
Taxable income	1,358	1,558
Taxation at 28% (Mar 11: 30%)	380	467
Less imputation credits and other tax credits	(409)	(439)
Prior Period adjustment	(27)	-
Tax expense	(56)	28
IMPUTATION CREDITS		
Opening balance	246	150
Imputation credits received during the period	422	436
Net tax (received)/paid during the period	(75)	65
	593	651
Prior period adjustment	24	-
Credits attached to distributions paid	(481)	(405)
Closing balance	136	246
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	-	7
Credits attached to distributions paid	-	(7)
Closing balance	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 28% (March 2011: 30%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Unitholders Funds.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders 2012 \$000	Total attributed to Unitholders 2011 \$000
Opening Distribution payable	1,641	1,102
Distribution accrued to Unitholders	1,447	1,626
	3,088	2,728
Distributed to Unitholders	(1,485)	(1,087)
Closing Distribution payable	1,603	1,641

7. RELATED PARTIES

The Manager receives management fees from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year ended 31 March 2012 amounted to \$266,000 (March 2011: \$282,000), with \$22,000 (March 2011: \$24,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2012 the Fund has receivables from Smartshares Limited of \$nil (March 2011: \$2,000, payable).

The Fund has entered into a securities lending agreement with New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2012 the amount of securities the Fund had on loan to the NZCL was \$244,312 (March 2011: \$608,000). Total security lending fees for the period ended 31 March 2012 amounted to \$3,000 (March 2011: \$1,000), with accrued fees due to the Fund of \$500 (March 2011: \$300).

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2012 was \$3,000 (March 2011: \$3,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2012

Company	Number of securities	Fair Value (\$)
Air New Zealand Limited	799,148	679,276
AMP NZ Office Trust	2,238,116	2,070,257
Argosy Property Trust	1,248,621	1,042,599
Cavalier Corporation Limited	129,709	263,309
DNZ Property Fund Limited	700,299	948,905
Ebos Group Limited	147,519	1,068,038
Fisher & Paykel Appliances Holdings Limited	1,640,281	803,738
Freightways Limited	435,525	1,698,548
Goodman Property Trust	2,537,908	2,614,045
Hallenstein Glasson Holdings Limited	115,687	462,748
Heartland New Zealand Limited	938,186	431,566
Kiwi Income Property Trust	2,778,099	2,944,785
Kathmandu Holdings Limited	566,211	922,924
Mainfreight Limited	246,676	2,368,090
Michael Hill International Limited	499,562	509,553
Nuplex Industries Limited	557,006	1,420,365
New Zealand Oil & Gas Limited	1,113,278	857,224
New Zealand Refining Company Limited	216,477	621,289
NZX Limited	342,095	954,445
Property for Industry Limited	620,032	719,237
PGG Wrightson Limited	507,719	192,933
Port of Tauranga Limited	171,366	1,859,321
Pumpkin Patch Limited	292,191	298,035
Rakon Limited	234,657	114,982
Restaurant Brands (NZ) Limited	276,903	509,502
Skellerup Holdings Ltd	545,844	769,640
Steel & Tube Holdings Limited	61,093	141,125
Trade Me Group Limited	380,453	1,323,976
TrustPower Limited	144,161	1,043,726
Tower Limited	504,681	837,770
Vector Limited	767,354	1,987,447
Vital Healthcare Property Trust	663,542	789,615
The Warehouse Group Limited	252,284	701,350
		33,970,363

All Investments are designated at inception as being at fair value through profit or loss. The fair value of Investments is calculated using the last bid price on the relevant trading day. The fair value of Investments held at 31 March 2012 was \$33,970,363. (March 2011: \$35,807,243). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2012 there were 16,318,773 (March 2011: 16,615,488) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of Investments in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2012 was \$2.1076 (March 2011: \$2.1764).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2012 was \$2.0998 (March 2011: \$2.1628).

The Fund's capital is represented by units issued and is shown in the Balance Sheet as Unitholder Funds. Refer to note 2.4 for a description of the term of the units. The Fund is not subject to any externally imposed capital requirements.

10. FAIR VALUE

Financial instruments measured at fair value can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments measured at fair value of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2012.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (March 2011: \$nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2012, and have not been applied in preparing the financial statements. The impact of any changes has not yet been determined.

- ▶ Harmonisation Amendments – various amendments effective for periods beginning on or after 1 July 2011;
- ▶ FRS 44 New Zealand Additional Disclosures – Effective for annual reporting periods beginning on or after 1 July 2011;
- ▶ NZ IFRS 9 Financial Instruments - Effective for annual reporting periods beginning on or after 1 January 2015;
- ▶ NZ IFRS 13 Fair Value Measurement Statements – Effective for annual reporting periods beginning on or after 1 January 2013;

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 30 APRIL 2012

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	214	12.38%	79,295	0.48%
1,001 to 5,000	673	38.95%	2,028,846	12.30%
5,001 to 10,000	434	25.12%	3,076,464	18.65%
10,001 to 100,000	397	22.97%	7,847,934	47.58%
100,001 and above	10	0.58%	3,462,251	20.99%
Total	1,728	100.00%	16,494,790	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 30 APRIL 2012

Full Name	Total	Percentage
New Zealand Central Securities Depository Limited	1,516,923	9.20%
Custodial Services Limited (3 A/C)	348,396	2.11%
Custodial Services Limited (2 A/C)	278,360	1.69%
Accordia Nominees Limited	248,400	1.51%
Custodial Services Limited (8 A/C)	218,373	1.32%
New Zealand Law Foundation	214,252	1.30%
Mohua Limited	175,043	1.06%
UBS New Zealand Limited	169,363	1.03%
Custodial Services Limited (18 A/C)	165,500	1.00%
Maori Investments Limited	127,641	0.77%
North Star Trustees Limited (Kotuku A/C)	93,889	0.57%
Gavin Douglas Horne & Brett Richard Highsted (Atf Doug Horne Family A/C)	66,135	0.40%
Keith Orsbourne Ballagh & Josephine Jane Frances Ballagh	64,856	0.39%
Jbwere (NZ) Nominees Limited (52744 A/C)	64,000	0.39%
Geoffrey Wayne Smith	63,148	0.38%
Colin Frederick Olsen	57,669	0.35%
Kerry Wayne Petersen & Beverly Petersen	56,395	0.34%
Kathryn May Kelly & David Anderson Smith (Kelly Dickison A/C)	56,160	0.34%
David Anderson Smith & Graeme Albert Smaill (Logan Leith No 2 A/C)	56,160	0.34%
Judith Rae Timpany & Claire Louise Timpany & Fiona Helen Timpany (Timpany Family A/C)	55,989	0.34%
Joan Cann & Stuart Raymond Cann (NS & J Cann A/C)	52,768	0.32%
	4,149,420	25.15%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 31 March 2012 the substantial holder in the Fund is Citibank Nominees New Zealand Limited with 666,740 units. The total number of units on issue at 31 March 2012 was 16,318,773.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2012

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009; resigned 17 August 2011)	-	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010; resigned 06 September 2011)	-	-
Kristin Brandon (appointed 17 August 2011)	-	-
Kathryn Jaggard (appointed 5 September 2011)	-	-
Erich Livengood (appointed 5 September 2011)	-	-

WAIVERS GRANTED

The Special Division of the New Zealand Markets Disciplinary Tribunal has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2012:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules.
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors.
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- 11.2.3 – Statements after Issues or Transfers.
- Appendix 2 – Minimum Holding.=



Independent Auditor's Report

To the Unitholders of NZX Midcap Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX Midcap Index Fund ("the Fund") on pages 22 to 32. The financial statements comprise the balance sheet as at 31 March 2012 and the statements of comprehensive income, changes in unitholders funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX Midcap Index Fund on pages 22 to 32:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2012 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX Midcap Index Fund as far as appears from our examination of those records.

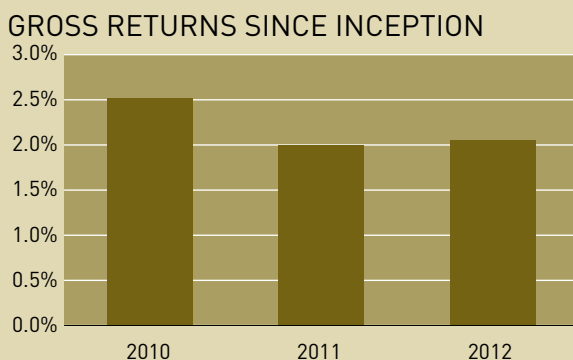
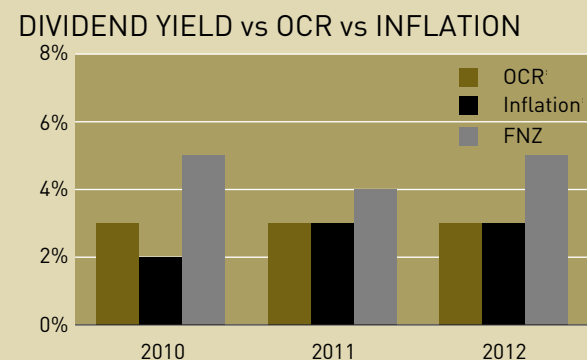
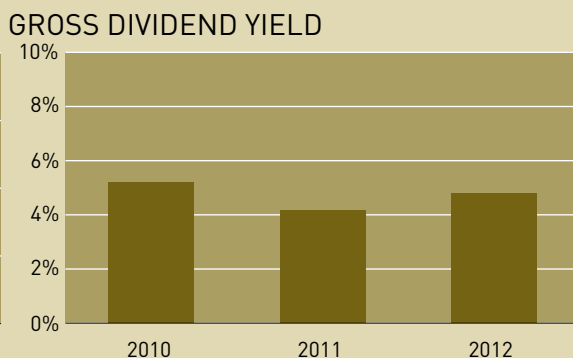
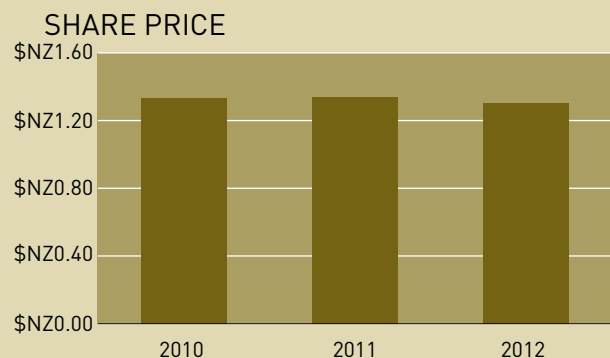
28 May 2012
Wellington

NZX 50 Portfolio Index Fund (smartFONZ)

Performance for the Financial Year ended 31 March 2012

HIGHLIGHTS

	March 2012	March 2011
NTA	1.267	1.331
Price	1.305	1.339
(Discount) Premium	(0.038)	(0.008)
Full Year Dividend	\$0.061	\$0.056
Gross Dividend Yield	4.80%	4.15%
Gross Return		
- 1yr	2.19%	4.75%
- (Inception)	2.05%	2.00%
Funds Under Management	\$83,986,098	\$82,891,688





NZX 50 Portfolio Index Fund

Report to Unitholders



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
Presented by Smartshares Limited, Manager of the NZX 50 Portfolio Index Fund

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
INCOME			
Dividends		3,686	4,141
Securities lending income	7	18	8
Net changes in fair value of financial assets		(4,102)	(342)
Total Net Income		(398)	3,807
EXPENSES			
Management fees	7	627	584
Total Expenses		627	584
Net Profit/(Loss) before Tax		(1,025)	3,223
Tax expense	4	40	145
Net Profit/(Loss) after Tax		(1,065)	3,078

STATEMENT OF CHANGES IN UNITHOLDERS FUNDS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
Opening Unitholders Funds		82,420	70,028
Net profit/(loss) after tax		(1,065)	3,078
Net subscriptions allotted	5	5,326	12,232
Distributions accrued to Unitholders	6	(3,402)	(2,918)
Closing Unitholders Funds		83,279	82,420

These financial statements should be read in conjunction with the notes on pages 41-48

BALANCE SHEET
AS AT 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CURRENT ASSETS			
Cash and cash equivalents		2,898	2,222
Other current assets	7	-	21
Tax receivable		30	40
Accounts receivable		478	912
Total Current Assets		3,406	3,195
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	82,950	81,780
Total Non-Current Assets		82,950	81,780
Total Assets		86,356	84,975
CURRENT LIABILITIES			
Management fees payable	7	55	54
Other current liabilities		6	-
Funds held for unit purchases		126	153
Distribution payable to Unitholders	6	2,883	2,302
Total Current Liabilities		3,070	2,509
NON-CURRENT LIABILITIES			
Deferred tax	4	7	46
Total Non-Current Liabilities		7	46
Total Liabilities		3,077	2,555
Unitholders Funds		83,279	82,420
Total liabilities and Unitholder Funds		86,356	84,975

These financial statements should be read in conjunction with the notes on pages 41-48

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 28 May 2012.



K JAGGARD CHAIR
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		4,121	3,655
Securities lending income received	7	17	7
Cash inflows from operating activities		4,138	3,662
CASH WAS APPLIED TO:			
Management fees paid	7	(626)	(563)
Tax paid directly by the fund		(68)	(205)
Cash outflows from operating activities		(694)	(768)
Net Cash Flows from Operating Activities		3,444	2,894
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Net repayments to/(from) the Manager		2	124
Cash inflows from investing activities		2	124
CASH WAS APPLIED TO:			
Purchase of investments		(3,932)	(4,717)
Cash inflows from investing activities		(3,932)	(4,717)
Net Cash Flows from Investing Activities		(3,930)	(4,593)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		3,983	4,702
Cash inflows from financing activities		3,983	4,702
CASH WAS APPLIED TO:			
Distributions directly to Unitholders	6	(1,716)	(635)
Dividend reinvestment	6	(1,105)	(1,256)
Cash outflows from financing activities		(2,821)	(6,608)
Net Cash Flows From Financing Activities		1,162	(1,906)
Net increase/(decrease) in cash held		676	1,112
Opening cash balance		2,222	1,110
Cash at End of Period		2,898	2,222
RECONCILIATION OF NET PROFIT / (LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		(1,065)	3,078
LESS NON-CASH ITEMS:			
Net changes in fair value of investments		4,102	342
Operating movement in tax receivable/payable		10	(48)
Movement in deferred tax		(39)	(11)
Movement in management fees payable		1	20
Movement in accounts receivable		435	(487)
Net Cash Flows From Operating Activities		3,444	2,894

These financial statements should be read in conjunction with the notes on pages 41-48

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX 50 Portfolio Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 15 October 2004. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments, security lending income received less expenses paid. All changes in the value of investments in equity securities, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Manager') tracking the NZX 50 Portfolio Index ('the Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are quoted on the NZX Main Board. Investments are valued at fair value according to last bid prices on the NZX Main Board on 31 March 2012 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), which complies with the New Zealand equivalents to International Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies, (refer Notes 2.2 and 2.4).

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities in the Cash Flow Statement includes all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions to and from, or cash distributions to the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to their Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 30 March) and 19 October (record date 28 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8, after the deduction of management fees. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 SECURITIES LENDING

The Fund enters into Securities Lending transactions whereby it transfers assets recognised on its Balance Sheet, but retails either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

2.9 SEGMENT INFORMATION

The Fund operates solely in the business of investment management, investing in New Zealand equities.

2.10 CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.

3. FINANCIAL RISK MANAGEMENT

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The financial instruments not accounted for at fair value through the profit and loss are short-term financial assets and liabilities whose carrying amounts approximate fair value.

FINANCIAL INSTRUMENTS BY CATEGORY

Loans and receivables	2012	2011
	\$000	\$000
Trade and other receivables	478	933
Cash and cash equivalents	2,898	2,222
Financial Assets at fair value through profit and loss	\$000	\$000
Investments in equity held at fair value	82,950	81,780
Other financial liabilities	\$000	\$000
Funds held for unit purchase	126	153
Trade and other payables	61	54
Distribution payable to Unitholders	2,883	2,302

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and security lending risk. The Fund does not have exposure to currency risk or interest rate risk. The risk management policies used by the Fund are detailed below:

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Manager does not manage this risk. A 10% increase/decrease of equity prices as at 31 March 2012 would increase/decrease profit and Unitholder funds by \$8,300 (March 2011: \$8,200).

Notes to the Financial Statements

Continued

3.2 CREDIT RISK

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	As at 2012 \$000	As at 2011 \$000
Cash	2,898	2,222
Accounts receivable	478	912
Investments	82,950	81,780

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are quoted on the NZX Main Board.

3.4 SECURITIES LENDING RISK

The potential risks associated with securities lending include, but are not limited to, the following:

- ▶ Borrower credit risk and settlement risk
- ▶ Failure of the central counterparty settlement system
- ▶ Operational & legal risk

In order to limit the Fund's exposure to risk that may arise as a result of securities lending, the Fund has a limitation of 50% of the value of its securities it may lend at any point in time. Individual or multiple securities can be lent at any given time, for a minimum of one day. Fees are charged accordingly.

At 31 March 2012, the single borrower of the Fund's securities is New Zealand Clearing Limited ('NZCL'), a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. On the 31 March 2012 the amount of securities the Fund had on loan to the NZCL was \$3,517,331 (March 2011: \$1,017,000).

4. TAXATION

	2012 \$000	2011 \$000
INCOME TAX EXPENSE		
Net profit/(loss) before tax	(1,025)	3,223
Add back decrease/(increase) in net changes in fair value of financial assets	4,102	342
Non-taxable income	(609)	(594)
Accrued dividends movement	296	(514)
Gross up of FWT & RWT withheld on dividends	10	8
Gross up of imputation credits	1,054	820
Taxable income	3,828	3,285
Capital Distributions	-	(47)
Taxable income	3,285	3,022
Taxation at 28% (Mar 11: 30%)	1,072	986
Less imputation credits and other tax credits	(1,002)	(835)
Effect of tax rate change	-	(3)
Prior period adjustment	(30)	(3)
Tax expense	40	145
DEFERRED TAX *		
Opening balance	(46)	(57)
Current year movement	39	8
Effect of tax rate change	-	3
Closing balance	(7)	(46)
* Deferred Tax is calculated on accrued foreign dividends		
IMPUTATION CREDITS		
Opening balance	441	21
Imputation credits received during the period	1,054	820
Net tax paid during the period	55	202
	1,550	1,043
Credits attached to distributions paid	(792)	(657)
Prior period adjustment	42	55
Closing Balance	800	441
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	(14)	16
Credits attached to distributions paid	-	(2)
Net tax paid during the period	14	2
Prior period adjustment	-	(30)
Closing balance	-	(14)

The tax rate used in the above reconciliation is the corporate tax rate of 28% (March 2011: 30%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The Fund has no restrictions or specific requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Unitholders Funds.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders 2012 \$000	Total attributed to Unitholders 2011 \$000
Opening Distribution payable	2,302	1,275
Distribution accrued to Unitholders	3,402	2,918
	5,704	4,193
Distributed to Unitholders	(2,821)	(1,891)
Closing Distribution payable	2,883	2,302

7. RELATED PARTIES

The Manager receives management fees directly from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year ended 31 March 2012 amounted to \$627,000 (March 2011 \$584,000), with \$55,000 (March 2011: \$54,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2012 the Fund has payables to Smartshares Limited of \$6,000 (March 2011: \$21,000, receivable).

The Fund has entered into a securities lending agreement with New Zealand Clearing Limited, a wholly owned subsidiary of NZX Limited. Securities lent are backed against the collateral of the borrower. As at 31 March 2012 the amount of securities the Fund had on loan to the Clearing House was \$3,517,311 (March 2011: \$1,017,000). Total security lending fees for the period ended 31 March 2012 amounted to \$18,000 (March 2011: \$8,000), with accrued fees due to the Fund of \$3,000 (March 2011: \$2,000).

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2012 was \$3,000 (March 2011: \$3,000).

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2012

Company	Number of securities	Fair Value (\$)
Auckland Intl Airport Limited	1,954,285	4,787,998
Air New Zealand Limited	867,576	737,440
AMP Limited	135,116	745,840
AMP Office Trust	2,429,759	2,247,527
Australia and New Zealand Banking Group Limited	65,050	1,928,733
Argosy Property Trust	1,355,536	1,131,873
Cavalier Corporation Limited	140,816	285,856
Contact Energy Limited	486,997	2,288,886
Chorus Limited	1,183,539	4,343,588
DNZ Property Fund Limited	760,263	1,030,156
Ebos Group Limited	160,151	1,159,493
Fletcher Building Limited	485,475	3,267,247

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2012 (cont)

Company	Number of securities	Fair Value (\$)
Fisher & Paykel Appliance Holdings Limited	1,780,733	872,559
Fisher & Paykel Healthcare Corporation Limited	1,629,104	3,632,902
Freightways Limited	472,817	1,843,986
Goodman Fielder Limited	1,409,614	1,212,268
Goodman Property Trust	2,755,221	2,837,878
Guinness Peat Group Plc	3,976,834	2,028,185
Hallenstein Glasson Holdings Limited	125,593	502,372
Heartland New Zealand Limited	1,018,520	468,519
Infratil Limited	1,817,746	3,435,540
Kiwi Income Property Trust	3,015,979	3,196,938
Kathmandu Holdings Limited	614,694	1,001,951
Mainfreight Limited	267,798	2,570,861
Michael Hill International Limited	542,338	553,185
Nuplex Industries Limited	604,700	1,541,985
New Zealand Oil & Gas Limited	1,208,605	930,626
NZ Refining Company Limited	235,013	674,487
NZX Limited	371,388	1,036,173
OceanaGold Corporation	403,897	1,276,315
Property For Industry Limited	673,123	780,823
PGG Wrightson Limited	551,194	209,454
Port of Tauranga Limited	186,040	2,018,534
Pumpkin Patch Limited	317,211	323,555
Rakon Limited	254,750	124,828
Restaurant Brands Limited	300,613	553,128
Ryman Healthcare Limited	1,536,736	4,748,514
SKYCITY Entertainment Limited	630,919	2,454,275
Skellerup Holdings Limited	592,583	835,542
Sky Network Television Limited	911,453	4,721,327
Steel & Tube Holdings Limited	66,324	153,208
Telecom Corporation of New Zealand Limited	1,035,036	2,509,962
Telstra Corporation Limited	52,194	218,693
Trade Me Group Limited	413,030	1,437,344
TrustPower Limited	156,505	1,133,096
Tower Limited	547,895	909,506
Vector Limited	833,060	2,157,625
Vital Healthcare Property Trust	720,359	857,227
Westpac Banking Corporation	88,236	2,470,608
The Warehouse Group Limited	273,886	761,403
		82,950,019

All Investments are designated at inception as being at fair value through profit or loss. The fair value of Investments is calculated using the last bid price on the relevant trading day. The fair value of Investments held at 31 March 2012 was \$82,950,019 (March 2011: \$81,779,611). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2012 there were 66,281,974 (March 2011: 62,105,677) units on issue. Due to the requirement of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2012 was \$1.2671 (March 2011: \$1.3374).

NZ IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2012 was \$1.2621 (March 2011: \$1.3353).

The Fund's capital is represented by units issued and is shown in the Balance Sheet as Unitholder Funds. Refer to note 2.4 for a description of the term of the units. The Fund is not subject to any externally imposed capital requirements.

10. FAIR VALUE

Financial instruments measured at fair value can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments measured at fair value of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2012.

11. EVENTS AFTER THE BALANCE SHEET DATE

There are no known events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (March 2011: \$nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2012, and have not been applied in preparing the financial statements. The impact of any changes has not yet been determined.

- ▶ Harmonisation Amendments – various amendments effective for periods beginning on or after 1 July 2011;
- ▶ FRS 44 New Zealand Additional Disclosures – Effective for annual reporting periods beginning on or after 1 July 2011;
- ▶ NZ IFRS 9 Financial Instruments – Effective for annual reporting periods beginning on or after 1 January 2015;
- ▶ NZ IFRS 13 Fair Value Measurement Statements – Effective for annual reporting periods beginning on or after 1 January 2013;

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 30 APRIL 2012

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	316	11.37%	98,257	0.14%
1,001 to 5,000	974	35.05%	2,944,113	4.33%
5,001 to 10,000	664	23.89%	4,833,934	7.10%
10,001 to 100,000	801	28.82%	19,329,176	28.41%
100,001 and above	24	0.86%	40,840,394	60.02%
Total	2,779	100.00%	68,045,874	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 30 APRIL 2012

Full Name	Total	Percentage
Investment Custodial Services Limited (C A/C)	17,189,978	25.26%
NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund A/C)	6,771,870	9.95%
Investment Custodial Services Limited (R A/C)	5,351,443	7.86%
FNZ Custodians Limited	3,598,687	5.29%
Stephen Lawrence Brownlie & Robert Johnston (Stephen Brownlie Family Ac)	1,901,569	2.79%
NZGT Superannuation Trustees Limited (Smartkiwi Balanced Fund A/C)	1,587,970	2.33%
New Zealand Central Securities Depository Limited	932,175	1.37%
NZGT Superannuation Trustees Limited (Smartkiwi Conservative Fund A/C)	409,463	0.60%
Custodial Services Limited (3 A/C)	402,407	0.59%
HSBC Nominees (New Zealand) Limited (040-022709-100 A/C)	358,800	0.53%
Mohua Limited	315,416	0.46%
Custodial Services Limited (2 A/C)	298,774	0.44%
Tamaoho Waaka Vercoe, Charles Ohaki Elliott & Beverley Nawarihi Hughes (Putauaki A/C)	198,008	0.29%
HSBC Nominees (New Zealand) Limited (003-040813-230 A/C)	180,000	0.26%
Trevor Paul Fitzjohn & John Livingston Marshall	179,011	0.26%
FNZ Custodians Limited (DRP NZ A/C)	162,466	0.24%
Oceanpro Holdings Limited	149,844	0.22%
HSBC Nominees (New Zealand) Limited (04-025173-100 A/C)	140,050	0.21%
Joan Cann & Stuart Raymond Cann (NS & J Cann A/C)	130,611	0.19%
Tahi Venures Limited	126,156	0.19%
	40,384,698	59.33%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 31 March 2011 substantial holders in the Fund was NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund A/C) with 3,990,446 units. The total number of units on issue at 31 March 2011 was 66,281,974.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2012

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009; resigned 17 August 2011)	-	-
Rowan Macrae (appointed 21 May 2010)	15,451	-
Helena Lewis (appointed 9 November 2010; resigned 06 September 2011)	1,879	-
Kristin Brandon (appointed 17 August 2011)	-	-
Kathryn Jaggard (appointed 5 September 2011)	-	-
Erich Livengood (appointed 5 September 2011)	-	-

WAIVERS GRANTED

The Special Division of the New Zealand Markets Disciplinary Tribunal has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2012:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules.
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors.
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- 11.2.3 – Statements after Issues or Transfers.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

Independent Auditor's Report

To the Unitholders of NZX 50 Portfolio Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX 50 Portfolio Index Fund ("the Fund") on pages 38 to 48. The financial statements comprise the balance sheet as at 31 March 2012 and the statements of comprehensive income, changes in unitholders funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX 50 Portfolio Index Fund on pages 38 to 48:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2012 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX 50 Portfolio Index Fund as far as appears from our examination of those records.

28 May 2012

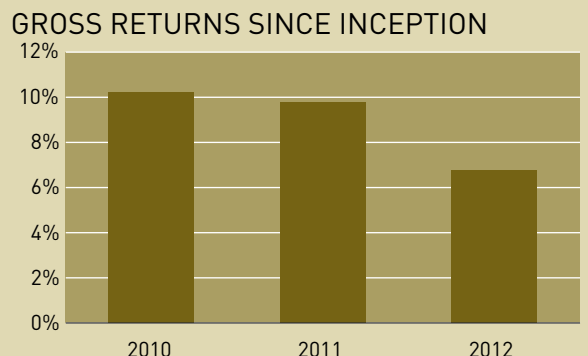
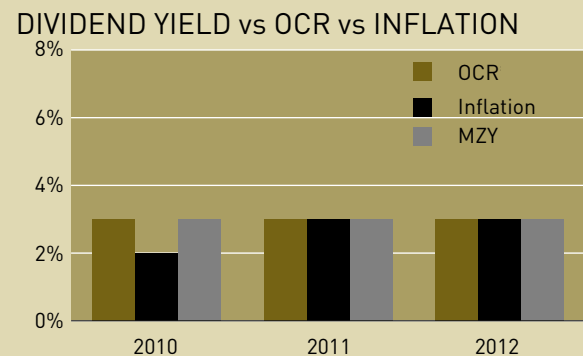
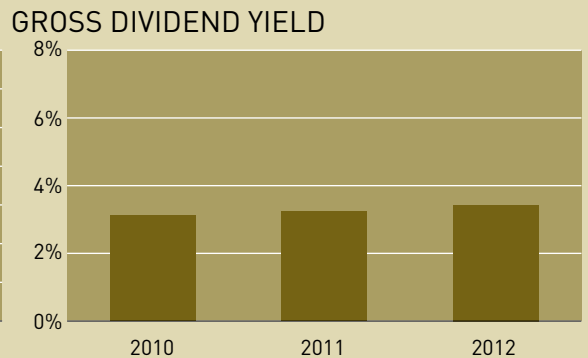
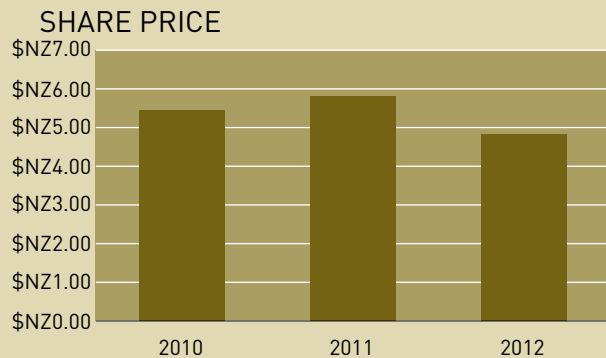
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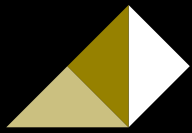
NZX Australian MIDCAP Index Fund (smartMOZY)

Performance for the Financial Year ended 31 March 2012

HIGHLIGHTS

	March 2012	March 2011
NTA	4.814	5.811
Price	4.815	5.800
(Discount) Premium	(0.001)	(0.011)
Full Year Dividend	\$0.168	\$0.186
Gross Dividend Yield	3.43%	3.23%
Gross Return		
- 1yr	(14.93%)	8.14%
- (Inception)	6.75%	9.76%
Funds Under Management	\$47,161,281	\$57,239,724





smartMOZY

NZX Australian Midcap Index Fund

Report to Unitholders



Smartshares

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012
Presented by Smartshares Limited, Manager of the NZX Australian Midcap Index Fund

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
INCOME			
Dividends		1,971	2,392
Net changes in fair value of financial assets		(9,991)	2,395
Total Net Income		(8,020)	4,787
EXPENSES			
Management fees	7	377	377
Foreign exchange loss		8	25
Total Expenses		385	402
Net Profit/(Loss) before Tax		(8,405)	4,385
Tax expense	4	419	486
Net Profit/(Loss) after Tax		(8,824)	3,899

STATEMENT OF CHANGES IN UNITHOLDERS FUNDS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
Opening Unitholder Funds		57,353	55,651
Net profit/(loss) after tax		(8,824)	3,899
Net subscriptions allotted/(redeemed)	5	(524)	(759)
Distributions accrued to Unitholders	6	(1,290)	(1,438)
Closing Unitholder Funds		46,715	57,353

These financial statements should be read in conjunction with the notes on pages 57-64

BALANCE SHEET
 AS AT 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CURRENT ASSETS			
Cash and cash equivalents		1,613	1,376
Accounts receivable		219	376
Other current assets	7	-	30
Total Current Assets		1,832	1,782
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	46,500	57,183
Total Non-Current Assets		46,500	57,183
Total Assets		48,332	58,965
CURRENT LIABILITIES			
Management fees payable	7	31	38
Funds held for unit purchases		35	80
Other current liabilities	7	4	-
Distribution payable to Unitholders	6	1,322	1,228
Taxation payable		164	161
Total Current Liabilities		1,556	1,507
NON-CURRENT LIABILITIES			
Deferred tax	4	61	105
Total Non-Current Liabilities		61	105
Total Liabilities		1,617	1,612
Unitholder Funds		46,715	57,353
Total Liabilities and Unitholder Funds		48,332	58,965

These financial statements should be read in conjunction with the notes on pages 57-64

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 28 May 2012.



K JAGGARD CHAIR
 SMARTSHARES LIMITED



R MACRAE DIRECTOR
 SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		2,128	2,378
Cash inflows from operating activities		2,128	2,378
CASH WAS APPLIED TO:			
Management fees paid	7	(383)	(375)
Taxation paid		(459)	(368)
Cash outflows from operating activities		(842)	(743)
Net Cash Flows from Operating Activities		1,286	1,635
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Net repayments to/(from) the Manager		53	26
Cash inflow/(outflows) from investing activities		53	26
CASH WAS APPLIED TO:			
Purchase of Investments		(3,161)	(2,754)
Cash inflow/(outflows) from investing activities		(3,161)	(2,754)
Net Cash Flows from Financing Activities		(3,108)	(2,728)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		3,263	2,816
Cash inflows from financing activities		3,263	2,816
CASH WAS APPLIED TO:			
Distributions paid to Unitholders	6	(476)	(358)
Distributions paid for dividend reinvestment	6	(720)	(505)
Cash outflows from financing activities		(1,196)	(3,617)
Net Cash Flows from Financing Activities		2,067	(801)
Net increase/(decrease) in cash held		245	860
Effect of exchange rate fluctuations on cash and cash equivalents		(8)	(22)
Opening cash balance		1,376	538
Cash at End of Period		1,613	1,376
RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		(8,824)	3,899
LESS NON-CASH ITEMS:			
Net changes in fair value of Investments		9,991	(2,395)
Operating movement in taxation payable		3	118
Movement in deferred tax		(44)	5
Effect of exchange rate fluctuations on cash and cash equivalents		8	22
Movement in management fees payable		(7)	2
Movement in accounts receivable		159	(16)
Net Cash Flows from Operating Activities		1,286	1,635

These financial statements should be read in conjunction with the notes on pages 57-64

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX Australian Midcap Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established under the Trustee Companies Act 1967 and a Trust Deed dated 10 August 2004. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are confined only to dividends received from the portfolio of investments less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Manager'), tracking the ASX S&P Australian Midcap Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are quoted on the NZX Main Board. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2012 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), which complies with the New Zealand equivalents of the International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements, being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies, (refer Notes 2.2 and 2.4).

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities in the Cash Flow Statement includes all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions to and from, or cash distributions to Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 30 March) and 19 October (record date 28 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8 after the deduction of management fees. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 SEGMENT INFORMATION

The Fund operates solely in the business of investment management, investing in Australian equities.

2.9 CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.

3. FINANCIAL RISK MANAGEMENT

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The financial instruments not accounted for at fair value through the profit and loss are short-term financial assets and liabilities whose carrying amounts approximate fair value.

FINANCIAL INSTRUMENTS BY CATEGORY

	2012	2011
	\$000	\$000
Loans and receivables		
Trade and other receivables	219	406
Cash and cash equivalents	1,613	1,376
Financial Assets at fair value through profit and loss	\$000	\$000
Investments in equity held at fair value	46,500	57,183
Other financial liabilities	\$000	\$000
Funds held for unit purchase	35	80
Trade and other payables	35	38
Distribution payable to Unitholders	1,322	1,228

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, currency risk and liquidity risk. The Fund does not have exposure to interest rate risk. The risk management policies used by the Fund are detailed below:

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Manager does not manage this risk. A 10% increase/decrease of equity prices as at 31 March 2012 would increase/decrease profit and Unitholder funds by \$4,700 (March 2011: \$5,700).

Notes to the Financial Statements

Continued

3.2 CREDIT RISK

The Fund is exposed to credit risk, the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	As at 2012	As at 2011
Cash	1,376	538
Accounts receivable	376	362
Other current assets	30	-
Investments	57,183	55,651

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are quoted on the Australian Exchange.

3.4 CURRENCY RISK

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions. The table below summarises the Fund's exposure to currency risks.

A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2012 would have the decreased/increased profit and Unitholders funds by \$4,300 (March 2011: \$5,200).

NZD CONCENTRATION OF ASSETS AND LIABILITIES UNDER AUD DOLLARS

	As at 2012	As at 2011
ASSETS		
Investments in equity securities held at fair value	46,500	57,183
Australian dollar cash held (NZD)	274	172

4. TAXATION

	2012 \$000	2011 \$000
INCOME TAX EXPENSE		
Net profit/(loss) before tax	(8,405)	4,385
Add back decrease/(increase) in net changes in fair value of financial assets	9,991	(2,395)
Gross up of FWT withheld on dividends	28	21
Dividends received subject to FDR regime	(621)	(690)
Taxable income on FDR securities	637	699
Gross up of imputation credits	-	10
Taxable income	1,630	2,030
Taxation at 28% (Mar 11: 30%)	456	609
Less tax credits & imputation credits	(48)	(88)
Prior period adjustment	11	(27)
Effect of tax rate change	-	(8)
Tax expense	419	486
DEFERRED TAX *		
Opening balance	(105)	(100)
Effect of tax rate change	-	8
Current year movement	44	(13)
Closing balance	(61)	(105)
IMPUTATION CREDITS		
Opening balance	462	424
Net tax paid during the period	459	314
	921	738
Credits attached to distributions paid	(503)	(331)
Transfer from DWP	14	-
Prior period adjustment	-	55
Closing balance	432	462
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	14	3
Net tax paid during the period	-	49
	14	52
Prior period adjustment	-	6
Transfer to ICA	(14)	-
Credits attached to distributions paid	-	(44)
Closing balance	-	14

The tax rate used in the above reconciliation is the corporate tax rate of 28% (March 2011: 30%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Unitholder Funds.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders 2012 \$000	Total attributed to Unitholders 2011 \$000
Opening Distribution payable	1,228	600
Distribution accrued to Unitholders	1,290	1,438
	2,518	2,038
Distributed to Unitholders	(1,196)	(810)
Closing Distribution payable	1,322	1,228

7. RELATED PARTIES

The Manager receives management fees from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Auditor in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year ended 31 March 2012 amounted to \$377,000 (March 2011 \$377,000), with \$31,000 (March 2011: \$38,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2012 the Fund has payables from Smartshares Limited of \$4,000 (March 2011 \$30,000, receivable).

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2012 was \$3,000 (March 2011: \$3,000)

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2012

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
Atlas Iron Limited	284,945	820,642	1,042,217
Ansell Limited	47,541	695,049	882,715
APA Group	185,639	939,333	1,192,956
Aquarius Platinum Limited	138,143	305,296	387,727
Bendigo & Adelaide Bank Limited	134,901	1,044,134	1,326,053
Boral Limited	261,373	1,050,719	1,334,416
Boart Longyear Limited	161,849	670,055	850,971
Bank of Queensland	93,925	681,896	866,009
Beach Energy Limited	426,678	625,083	793,857
Bluescope Steel Limited	1,086,034	423,553	537,914
Challenger Financial Services Group Limited	193,912	736,866	935,821
Cochlear Limited	19,843	1,218,360	1,547,321
Commonwealth Property Office Fund	859,719	842,525	1,070,008

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2012 (cont)

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
Campbell Brothers Limited	23,500	1,572,385	1,996,933
Charter Hall Office Reit	144,271	442,912	562,499
Centro Retail Australia	470,544	856,390	1,087,618
CSR Limited	181,131	324,224	411,766
CSR Limited	47,380	656,213	833,392
Caltex Australia Limited	175,712	421,709	535,571
David Jones Limited	145,245	570,813	724,934
Downer EDI Limited	347,086	628,226	797,848
DUET Group	1,698,318	1,469,045	1,865,691
DEXUS Property Group	218,170	949,040	1,205,283
Echo Entertainment Group Limited	734,156	528,592	671,314
Fairfax Media Limited	69,603	629,907	799,984
Graincorp Limited	200,628	401,256	509,596
Harvey Norman Holdings	932,671	587,583	746,232
Investa Office Fund	34,117	373,581	474,449
JB Hi-Fi Limited	151,949	1,142,656	1,451,177
James Hardie Industries	583,475	638,905	811,411
Lynas Corporation Limited	30,165	717,927	911,769
Monadelphous Group Limited	269,417	1,188,129	1,508,927
Metcash Limited	204,091	475,532	603,927
Myer Holdings Limited	441,732	547,748	695,641
Onesteel Limited	110,420	1,073,282	1,363,071
OZ Minerals Limited	271,888	497,555	631,896
Paladin Energy Limited	164,864	501,187	636,508
Panaust Limited	159,978	375,948	477,455
Perseus Mining Limited	163,712	464,942	590,478
Primary Health Care Limited	45,249	878,736	1,115,996
Ramsay Health Care Limited	281,214	838,018	1,064,285
Resmed Inc	114,609	790,802	1,004,321
Seek Limited	58,353	854,871	1,085,689
Sims Metal Management Limited	415,407	616,879	783,438
Spark Infrastructure Group	133,799	521,816	662,708
Seven West Media Limited	240,381	651,433	827,321
Transfield Services Limited	462,809	1,143,138	1,451,788
Tatts Group Limited	225,434	913,008	1,159,522
Treasury Wine Estates Limited	57,459	758,459	963,245
United Group Limited	99,635	557,956	708,606
		36,614,314	46,500,272

All Investments are designated at inception as being at fair value through profit or loss. The fair value of Investments is calculated using the last bid price on the relevant trading day. The fair value of Investments held at 31 March 2012 was A\$36,614,314 (March 2011: A\$42,258,045) where the New Zealand dollar equivalent was NZ\$46,500,272 (March 2011: NZ\$57,182,740), the exchange rate used was \$0.7874 (March 2011: 0.7390). The investments are registered in the name of JB Were (NZ) Nominees Limited, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2012 there were 9,751,877 (March 2011: 9,868,918) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2012 was \$4.8371 (March 2011: \$5.8759).

NZ IFRS and IFRS requires that long quoted investment positions be valued at the closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2012 was \$4.8114 (March 2011: \$5.8379).

The Fund's capital is represented by units issued and is shown in the Balance Sheet as Unitholder Funds. Refer to note 2.4 for a description of the term of the units. The Fund is not subject to any externally imposed capital requirements.

10. FAIR VALUE

Financial instruments measured at fair value can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments measured at fair value of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2012.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (March 2011: \$nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2012, and have not been applied in preparing the financial statements. The impact of any changes has not yet been determined.

- ▶ Harmonisation Amendments – various amendments effective for periods beginning on or after 1 July 2011;
- ▶ FRS 44 New Zealand Additional Disclosures – Effective for annual reporting periods beginning on or after 1 July 2011;
- ▶ NZ IFRS 9 Financial Instruments - Effective for annual reporting periods beginning on or after 1 January 2015;
- ▶ NZ IFRS 13 Fair Value Measurement Statements – Effective for annual reporting periods beginning on or after 1 January 2013;

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 30 APRIL 2012

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	773	32.98%	346,979	3.56%
1,001 to 5,000	1188	50.68%	2,806,081	28.81%
5,001 to 10,000	242	10.32%	1,649,569	16.93%
10,001 to 100,000	136	5.80%	2,906,072	29.83%
100,001 and above	5	0.21%	2,032,801	20.87%
Total	2,344	100.00%	9,741,502	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 30 APRIL 2012

Full Name	Total	Percentage
NZGT Superannuation Trustees Limited (Smartkiwi Growth Fund A/C)	1,188,364	12.20%
Custodial Services Limited (3 A/C)	312,108	3.20%
NZGT Superannuation Trustees Limited (Smartkiwi Balanced Fund A/C)	293,883	3.02%
Custodial Services Limited (4 A/C)	125,887	1.29%
Custodial Services Limited (2 A/C)	112,559	1.16%
Investment Custodial Services Limited (C A/C)	99,316	1.02%
FNZ Custodians Limited (DRP NZ A/C)	92,431	0.95%
FNZ Custodians Limited	88,762	0.91%
Forsyth Barr Custodians Limited (1-33 A/C)	81,873	0.84%
Custodial Services Limited (18 A/C)	80,504	0.83%
Forsyth Barr Custodians Limited (1-17.5 A/C)	75,328	0.77%
New Zealand Central Securities Depository Limited	60,484	0.62%
Custodial Services Limited (10 A/C)	52,172	0.54%
Elwyn Dianne Mayall	47,688	0.49%
Custodial Services Limited (8 A/C)	45,665	0.47%
Forsyth Barr Custodians Limited (1-30 A/C)	44,370	0.46%
Tamaoho W Vercoe & Charles O Elliott & Beverley N Hughes (Putauaki A/C)	43,345	0.44%
Gavin R Walker & Susan E Walker & William M Patterson (Tralee A/C)	39,741	0.41%
Gavin R Walker & Susan E Walker & William M Patterson (Waiata A/C)	39,741	0.41%
North Star Trustees Limited (Kotuku A/C)	37,933	0.39%
Christopher Graham Paice	35,861	0.37%
	2,998,015	30.79%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988 as at 31 March 2012 NZGT Superannuation Trustees Limited (smartkiwi Growth Fund A/C) was a substantial holder in the Fund with 705,132 units. The total number of units on issue at 31 March 2012 was 9,751,877.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2012

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009; resigned 17 August 2011)	-	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010; resigned 06 September 2011)	-	-
Kristin Brandon (appointed 17 August 2011)	-	-
Kathryn Jaggard (appointed 5 September 2011)	-	-
Erich Livengood (appointed 5 September 2011)	-	-

WAIVERS GRANTED

The Special Division of the New Zealand Markets Disciplinary Tribunal has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2012:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules.
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors.
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

To the Unitholders of NZX Australian Midcap Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX Australian Midcap Index Fund ("the Fund") on pages 54 to 64. The financial statements comprise the balance sheet as at 31 March 2012 and the statements of comprehensive income, changes in unitholders funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX Australian Midcap Index Fund on pages 54 to 64:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2012 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX Australian Midcap Index Fund as far as appears from our examination of those records.

28 May 2012

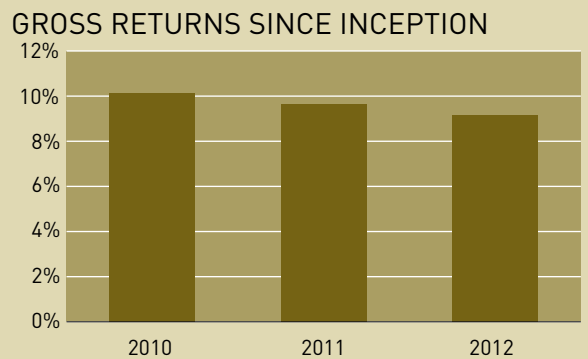
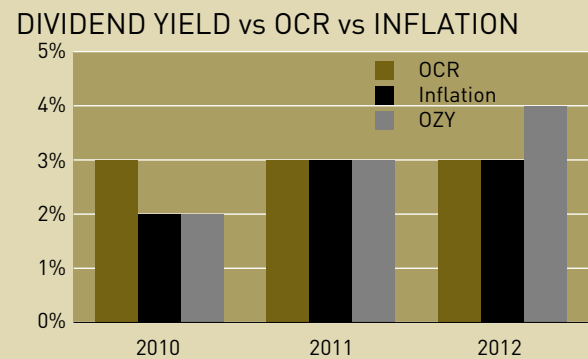
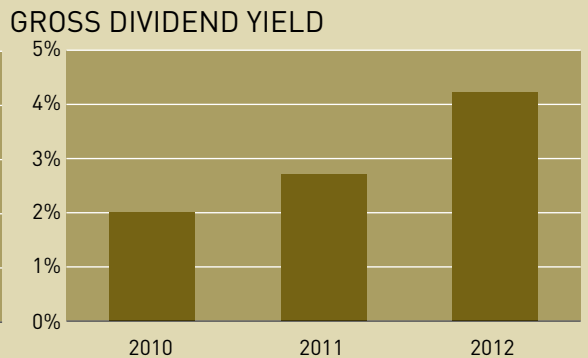
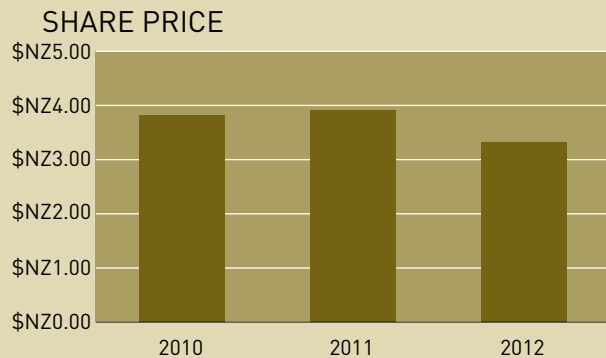
Wellington

NZX Australian 20 Leaders Index Fund (smartOZZY)

Performance for the Financial Year ended 31 March 2012

HIGHLIGHTS

	March 2012	March 2011
NTA	3.300	3.925
Price	3.322	3.900
(Discount) Premium	(0.022)	(0.025)
Full Year Dividend	\$0.140	\$0.044
Gross Dividend Yield	4.22%	2.71%
Gross Return		
- 1yr	(2.37%)	3.75%
- (Inception)	9.17%	9.64%
Funds Under Management	\$89,381,486	\$109,362,494





NZX Australian 20 Leaders Index Fund

Report to Unitholders



Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
INCOME			
Dividends		4,683	4,604
Other income		-	2
Net changes in fair value of financial assets		(18,722)	2,547
Total Net Revenue		(14,039)	7,153
EXPENSES			
Foreign exchange loss		34	16
Management fees	7	585	630
Total Expenses		619	646
Net Profit/(Loss) before Tax		(14,658)	6,507
Tax expense	4	1,145	1,094
Net Profit/(Loss) after Tax		(15,803)	5,413

STATEMENT OF CHANGES IN UNITHOLDERS FUNDS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
Opening Unitholders Funds		110,067	111,850
Net profit/(loss) after tax		(15,803)	5,413
Net subscriptions allotted/(redeemed)	5	(3,277)	(3,979)
Distributions accrued to Unitholders	6	(3,064)	(3,217)
Closing Unitholders Funds		87,923	110,067

These financial statements should be read in conjunction with the notes on pages 73-80

BALANCE SHEET
AS AT 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CURRENT ASSETS			
Cash and cash equivalents		2,537	2,351
Accounts receivable		615	749
Total Current Assets		3,152	3,100
NON-CURRENT ASSETS			
Investments in equity securities held at fair value	8	88,411	110,035
Total Non-Current Assets		88,411	110,035
Total Assets		91,563	113,135
CURRENT LIABILITIES			
Taxation payable		308	7
Funds held for unit purchases		52	63
Other current liabilities	7	8	7
Management fees payable	7	47	56
Distribution payable to Unitholders	6	3,053	2,725
Total Current Liabilities		3,468	2,858
NON-CURRENT LIABILITIES			
Deferred tax	4	172	210
Total Non-Current Liabilities		172	210
Total Liabilities		3,640	3,068
Unitholders Funds		87,923	110,067
Total Liabilities and Unitholder Funds		91,563	113,135

These financial statements should be read in conjunction with the notes on pages 73-80

The Board of Directors of Smartshares Limited authorised these financial statements for issue on 28 May 2012.



K JAGGARD CHAIR
SMARTSHARES LIMITED



R MACRAE DIRECTOR
SMARTSHARES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Dividends received		4,817	4,929
Cash inflows from operating activities		4,817	4,929
CASH WAS APPLIED TO:			
Management fees	7	(595)	(624)
Tax paid directly by the Fund		(878)	(1,119)
Cash outflows from operating activities		(1,473)	(1,743)
Net Cash Flows from Operating Activities		3,344	3,186
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS APPLIED TO:			
Purchase of investments		(1,580)	(1,040)
Net payments made from/(to) the Manager	7	(3)	8
Cash inflows/(outflows) from investing activities		(1,583)	(1,032)
Net Cash Flows from Investing Activities		(1,583)	(1,032)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Savings plan & direct purchase deposits		1,195	1,320
Cash inflows from financing activities		1,195	1,320
CASH WAS APPLIED TO:			
Distributions paid to Unitholders	6	(1,480)	(1,092)
Distributions paid for dividend reinvestment	6	(1,256)	(884)
Cash outflows from financing activities		(2,736)	(3,016)
Net Cash Flows from Financing Activities		(1,541)	(1,696)
Net increase/(decrease) in cash held		220	1,498
Effect of exchange rate fluctuations on cash and cash equivalents		(34)	(27)
Opening cash balance		2,351	880
Cash at End of Period		2,537	2,351
RECONCILIATION OF NET PROFIT/(LOSS) AFTER TAX WITH NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) after tax		(15,803)	5,413
LESS NON-CASH ITEMS:			
Net changes in fair value of investments		18,722	(2,547)
Effect of exchange rate fluctuations on cash and cash equivalents		34	27
Operating movement in taxation receivable/payable		301	86
Movement in deferred tax		(38)	(120)
Movement in management fee payable		(9)	2
Movement in accounts receivable		137	325
Net Cash Flows from Operating Activities		3,344	3,186

These financial statements should be read in conjunction with the notes on pages 73-80

Notes to the Financial Statements

1. GENERAL INFORMATION

The NZX Australian 20 Leaders Index Fund (the 'Fund') is a for-profit open-ended Group Investment Fund established in New Zealand under the Trustee Companies Act 1967 and a Trust Deed dated 20 January 1997. The Fund is an Issuer as defined in the Financial Reporting Act 1993 (the 'Act') and these financial statements are presented in compliance with the Act. The Fund holds a portfolio of marketable securities for the long term as an investment vehicle for individual Unitholders. Distributions are made up of dividends received from the investments less expenses paid. All changes in the value of investments, both realised and unrealised are recorded in the Statement of Comprehensive Income.

The Fund's investment activities are managed by Smartshares Limited (the 'Manager') tracking the ASX S&P Australian 20 Leaders Index (the 'Index'). As prescribed by the Trust Deed, the Fund only invests in the securities included in the Index in proportion to the market capitalisation of the Index and the available capital of the Fund. The Fund's units are quoted on the NZX Main Board. Investments are valued at fair value according to last bid prices on the Australian Exchange on 31 March 2012 (see Note 8).

2. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), which complies with the New Zealand equivalents of the International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements, being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies (refer Notes 2.2 and 2.4).

2.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Classification

The Fund classifies its investments in equity securities held at fair value as financial assets at fair value through profit or loss. These financial assets are designated by the Smartshares Board of Directors at inception as their performance is managed and evaluated on a fair value basis in accordance with a documented investment strategy.

(b) Recognition/derecognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Measurement

Financial assets at fair value through profit or loss are recognised at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the Statement of Comprehensive Income when they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the Statement of Comprehensive Income within dividend income when the Fund's right to receive payment is established.

(d) Fair value estimation

The fair value of the financial instruments is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the last bid price.

Notes to the Financial Statements

Continued

2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are considered to be cash on hand and current accounts in banks, net of bank overdrafts. Operating activities in the Cash Flow Statement include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions to and from, or cash distributions to the Unitholders.

2.4 UNITS

The Fund issues units, which provide the holder with a residual interest in the Fund. The unit is carried at the proportion of the Fund's net asset value at the balance sheet date. The units can be put back to the Fund at any time, in accordance with the redemption rules as defined in the prospectus, for securities of the constituent companies in proportion to the Index and of a proportion of cash held in the Fund.

The units are issued and redeemed at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Unitholders' funds are classified as equity instruments.

2.5 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.6 DISTRIBUTIONS PAYABLE TO HOLDERS OF UNITS

Income from investments held is attributed to Unitholders on the basis of the number of units held at the entitlement date of the Unitholder distribution. Proposed distributions to Unitholders are recognised when they become payable as outlined in the Trust Deed.

Distributions are made on 20 April (record date 30 March) and 19 October (record date 28 September).

2.7 TAXATION

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable dividends (excluding dividends from entities subject to the Fair Dividend Rate method ('FDR')) from the entities listed in Note 8 after the deduction of management fees. With most of this income, the Fund is able to utilise imputation credits to satisfy the tax liability. The Fund pays tax to the extent that the imputation credits do not cover the tax liability in full. For securities subject to FDR, the Fund is liable for tax based on the market value of the security. All distributions to Unitholders are imputed to the extent permitted by the imputation credits that the directors of the entity determine are available.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.8 SEGMENT INFORMATION

The Fund operates solely in the business of investment management, investing in Australian equities.

2.9 CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period.

3. FINANCIAL RISK MANAGEMENT

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies. The financial instruments not accounted for at fair value through the profit and loss are short-term financial assets and liabilities whose carrying amounts approximate fair value.

FINANCIAL INSTRUMENTS BY CATEGORY

Loans and receivables	2012	2011
	\$000	\$000
Trade and other receivables	615	749
Cash and cash equivalents	2,537	2,351
Financial Assets at fair value through profit and loss	\$000	\$000
Investments in equity held at fair value	88,411	110,035
Other financial liabilities	\$000	\$000
Funds held for unit purchase	52	63
Trade and other payables	55	63
Distribution payable to Unitholders	3,053	2,725

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, currency risk and liquidity risk. The Fund does not have exposure to interest rate risk. The risk management policies used by the Fund are detailed below:

3.1 MARKET PRICE RISK

The Fund's equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial instruments. The market exposures are outlined in Note 8. The Fund's market risk is affected by actual changes in market prices. As this Fund tracks an index, any change in the underlying index will result in a corresponding change in the assets at fair value through profit or loss. In accordance with the terms of the Trust Deed the Manager does not manage this risk. A 10% increase/decrease of equity prices as at 31 March 2012 would increase/decrease profit and Unitholder funds by \$8,800 (March 2011: \$11,000).

Notes to the Financial Statements

Continued

3.2 CREDIT RISK

The Fund is exposed to the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. Financial instruments that subject the Fund to credit risk consist primarily of cash, accounts receivable and investments in equity securities held at fair value. The maximum credit risk of financial instruments is considered to be fair value. The risk of non-recovery of monetary assets is considered minimal due to the quality of counterparties dealt with. The Fund does not require collateral or other security to support financial instruments with credit risk. Maximum exposures to credit risk at balance date are:

	As at 2012 \$000	As at 2011 \$000
Cash	2,537	2,351
Accounts receivable	615	749
Investments in equity securities held at fair value	88,411	110,035

3.3 LIQUIDITY RISK

The Fund's listed securities are considered readily realisable, as they are quoted on the Australian Exchange.

3.4 CURRENCY RISK

The Fund holds assets denominated in a currency other than the New Zealand dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in Australian dollars will fluctuate due to changes in the exchange rate. The Fund's policy is not to enter into any currency hedging transactions. A 10% strengthening/weakening of the New Zealand dollar against the Australian dollar as at 31 March 2012 would have the decreased/increased profit and Unitholders funds by \$8,100 (March 2011: \$10,000).

The table below summarises the Fund's exposure to currency risks.

NZD CONCENTRATION OF ASSETS AND LIABILITIES UNDER AUSTRALIAN DOLLARS (AUD)

	As at 2012 \$000	As at 2011 \$000
ASSETS		
Investments in equity securities held at fair value	88,411	110,035
Australian dollar cash held (NZD)	492	891

4. TAXATION

	2012 \$000	2011 \$000
INCOME TAX EXPENSE		
Net profit/(loss) before tax	(14,658)	6,507
Add back decrease/(increase) in net changes in fair value of financial assets	18,722	(2,547)
Gross up of FWT withheld and ICs on dividends	29	25
Dividends subject to FDR regime	(134)	(330)
Taxable income on FDR securities	122	189
Dividends subject to Foreign Dividend Withholding Payments ('FDWP')	-	(464)
Taxable income	4,081	3,380
Taxation at 28% (Mar 11: 30%)	1,143	1,014
Less imputation credits and other tax credits	(46)	(43)
Effect of tax rate change	-	(15)
Prior period adjustment	48	138
Tax expense	1,145	1,094
DEFERRED TAX *		
Opening balance	(210)	(233)
Effect of tax rate change	-	-
Current year movement	38	(89)
Closing balance	(172)	(322)
* Deferred tax is calculated on accrued foreign dividends		
IMPUTATION CREDITS		
Opening balance	523	4
Net tax paid during the period	881	911
Imputation credits received during the period	23	-
Credits attached to distributions paid	(996)	(392)
Closing Balance	431	523
DIVIDEND WITHHOLDING PAYMENT CREDITS		
Opening balance	(53)	30
Prior year adjustment	-	60
Net tax paid during the period	-	208
Credits attached to distributions paid	-	(351)
Closing Balance	(53)	(53)

The tax rate used in the above reconciliation is the corporate tax rate of 28% (March 2011: 30%) payable by New Zealand corporate entities on taxable profits under New Zealand tax law. There has been a change in the corporate tax rate from 30% to 28% from 1 April 2011.

Notes to the Financial Statements

Continued

5. UNITS

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net assets attributable to Unitholders are represented by these units. The Fund has no restrictions or specific requirements on the subscriptions and redemptions of units, other than minimum holding requirements as defined in the prospectus. The relevant movements are shown on the Statement of Changes in Unitholders Funds.

6. DISTRIBUTION TO UNITHOLDERS

	Total attributed to Unitholders 2012 \$000	Total attributed to Unitholders 2011 \$000
Opening Distribution payable	2,725	1,490
Distribution accrued to Unitholders	3,064	3,217
	5,789	4,707
Distributed to Unitholders	(2,736)	(1,982)
Closing Distribution payable	3,053	2,725

7. RELATED PARTIES

The Manager receives management fees from the Fund. Under the Trust Deed the Manager pays the Trustee, Custodian, Registrar and Audit charges in respect of the Fund and receives all basket application and withdrawal fees and interest earned on cash at call. Total gross management fees excluding rebates for the year ended 31 March 2012 amounted to \$585,000 (March 2011 \$630,000), with \$47,000 (March 2011: \$56,000) outstanding accrued fees due to Smartshares Limited at the end of the period. At 31 March 2012 the Fund has payables to Smartshares Limited of \$8,000 (March 2011: \$7,000).

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2012 was \$3,000 (March 2011: \$3,000)

8. INVESTMENTS IN EQUITY SECURITIES HELD AT FAIR VALUE AS AT 31 MARCH 2012

Company	Number of Securities	Fair Value A\$	Fair Value NZ\$
AMP Limited	293,667	1,268,641	1,611,587
Australia & New Zealand Banking Group Limited	274,484	6,381,753	8,106,902
BHP Billiton Limited	328,789	11,376,099	14,451,346
Brambles Limited	151,485	1,072,514	1,362,441
Commonwealth Bank of Australia	162,006	8,116,501	10,310,595
CSL Limited	53,213	1,905,025	2,420,002
Macquarie Bank Ltd	35,713	1,037,820	1,318,369
National Australia Bank Limited	229,369	5,640,184	7,164,868
Newcrest Mining Limited	78,206	2,320,372	2,947,627
Origin Energy Limited	111,162	1,481,789	1,882,354
QBE Insurance Group Limited	118,599	1,671,060	2,122,790
Rio Tinto Limited	44,645	2,919,783	3,709,074
Santos Limited	96,561	1,372,132	1,743,054
Suncorp-Metway Limited	131,816	1,095,391	1,391,503
Telstra Corporation Limited	1,274,826	4,181,429	5,311,775
Westpac Banking Corporation	312,902	6,846,296	8,697,022
Westfield Group	216,936	1,909,037	2,425,098
Wesfarmers Limited	118,650	3,560,687	4,523,230
Woolworths Limited	125,699	3,265,660	4,148,450
Woodside Petroleum Limited	62,510	2,175,348	2,763,399
		69,597,521	88,411,486

All Investments are designated at inception as being at fair value through profit or loss. The fair value of Investments are calculated using the last bid price. The fair value of Investments held at 31 March 2012 was A\$69,597,521 (March 2011: A\$81,316,186). The New Zealand dollar equivalent was NZ\$88,411,486 (March 2011: NZ\$110,035,434), the exchange rate used was \$0.7872 (March 2011: 0.7390). The investments are registered in the name of JB Were (NZ) Nominees Ltd, the Custodian of the Fund.

Notes to the Financial Statements

Continued

9. UNITHOLDERS' FUNDS

As at 31 March 2012 there were 27,087,054 (March 2011: 28,041,665) units on issue. Due to the requirements of NZ IFRS and IFRS, there are differences between the valuation of investments for the purposes of determining the net asset value and for the purposes of determining the value of financial assets in the financial statements.

For the purposes of determining the net asset value, quoted investment positions are valued at last traded market prices on the relevant trading day in accordance with the Fund's offering documents and Trust Deed. The valuation does not include unsettled trades. The net asset value of each unit at 31 March 2012 was \$3.2998 (March 2011: \$3.9613).

NZ IFRS and IFRS require that long quoted investment positions be valued at closing bid prices (excluding provision for disposal costs) on the relevant trading day. The NZ IFRS net asset value of each unit at 31 March 2012 was \$3.2971 (March 2011: \$3.9536).

The Fund's capital is represented by units issued and is shown in the Balance Sheet as Unitholder Funds. Refer to note 2.4 for a description of the term of the units. The Fund is not subject to any externally imposed capital requirements.

10. FAIR VALUE

Financial instruments measured at fair value can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

All financial instruments measured at fair value of the Fund have been categorised as level 1 in the hierarchy. There were no transfers between levels in the period ended 31 March 2012.

11. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date

12. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date (March 2011: \$nil).

13. ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2012, and have not been applied in preparing the financial statements. The impact of any changes has not yet been determined.

- ▶ Harmonisation Amendments – various amendments effective for periods beginning on or after 1 July 2011;
- ▶ FRS 44 New Zealand Additional Disclosures – Effective for annual reporting periods beginning on or after 1 July 2011;
- ▶ NZ IFRS 9 Financial Instruments - Effective for annual reporting periods beginning on or after 1 January 2015;
- ▶ NZ IFRS 13 Fair Value Measurement Statements – Effective for annual reporting periods beginning on or after 1 January 2013;

Unitholder Information

DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS AS AT 30 APRIL 2012

	No. of holders	% of holders	No. of securities	% of securities
1 to 1,000	409	13.21%	171,636	0.63%
1,001 to 5,000	1492	48.21%	4,336,842	15.95%
5,001 to 10,000	689	22.26%	5,074,113	18.66%
10,001 to 100,000	485	15.67%	9,785,621	35.99%
100,001 and above	20	0.65%	7,821,339	28.77%
Total	3,095	100.00%	27,189,551	100.00%

20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES AS AT 30 APRIL 2012

Full Name	Total	Percentage
FNZ Custodians Limited	1,956,941	7.20%
Investment Custodial Services Limited (C A/C)	1,640,275	6.03%
FNZ Custodians Limited (DRP NZ A/C)	755,681	2.78%
Courtenay Nominees Limited	470,432	1.73%
Michael Donald Wight & Geraldine Louise Wight	386,486	1.42%
New Zealand Central Securities Depository Limited	300,523	1.11%
Alan Gordon Smart	269,505	0.99%
Custodial Services Limited (8 A/C)	261,435	0.96%
Aratrust Limited (Ara Lodge 348 IC Charitable A A/C)	241,500	0.89%
Custodial Services Limited (6 A/C)	188,212	0.69%
Custodial Services Limited (4 A/C)	179,955	0.66%
Custodial Services Limited (3 A/C)	166,491	0.61%
Forsyth Barr Custodians Limited (1-17.5 A/C)	141,158	0.52%
Judith Anne Knowles	135,688	0.50%
Michael Donald Wight & Geraldine Louise Wight & David Leonard Gill	135,410	0.50%
Custodial Services Limited (2 A/C)	131,380	0.48%
Custodial Services Limited (10 A/C)	120,597	0.44%
New Zealand Methodist Trust Association	120,000	0.44%
Forsyth Barr Custodians Limited (1-33 A/C)	116,490	0.43%
Custodial Services Limited (18 A/C)	103,180	0.38%
	7,821,339	28.76%

Unitholder Information

Continued

SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 35F of the Securities Markets Act 1988. According to the file kept by the Fund under section 35C of the Securities Market Act 1988, as at 31 March 2012 the substantial holders in the Fund were Brian H S Fraser and Timothy P Greville with 2,732,312 units. The total number of units on issue at 31 March 2012 was 27,087,054.

DIRECTORS' INTERESTS IN UNITS AS AT 31 MARCH 2012

	Beneficial	Non-Beneficial
Fiona Mackenzie (appointed 14 September 2009; resigned 17 August 2011)	-	-
Rowan Macrae (appointed 21 May 2010)	-	-
Helena Lewis (appointed 9 November 2010; resigned 06 September 2011)	-	-
Kristin Brandon (appointed 17 August 2011)	-	-
Kathryn Jaggard (appointed 5 September 2011)	-	-
Erich Livengood (appointed 5 September 2011)	-	-

WAIVERS GRANTED

The Special Division of the New Zealand Markets Disciplinary Tribunal has granted, either fully, partially or subject to conditions, the following waivers from the Listing Rules that were applicable at 31 March 2012:

- 1.9.1 – provisions of Rules applying to Equity Securities.
- 3.1.1(a) – compliance with the Listing Rules.
- 3.1.3 – Compliance with the provisions in Appendix 6.
- 3.3.1(c) to 3.3.1C, 3.6.2(a) and 3.6.2(c) – Requirements for an Audit Committee and Independent Directors.
- 3.3.2 to 3.3.12 – Appointment and Rotation of Directors.
- 3.4 – Proceedings and Power of Directors.
- 3.5 – Directors' remuneration.
- Section 4 and 3.1.1(b) – Takeover Provisions.
- 7.1.7 – Regulation 23 statements for Offering Documents.
- 7.1.11 – Minimum Subscription.
- 7.3 – Issues of Securities.
- 7.4 – Entitlements to Third Parties.
- 7.5 – Issues and Redemptions affecting Control.
- 7.6.1 to 7.6.3 – Buybacks and Redemptions.
- 7.11.1 – Time for Allotment.
- 7.12.2 – Notification of event affecting Securities.
- 8.2.1 to 8.2.3 – Lien on Distributions.
- 8.3.1 – Ruling in relation to Interest Groups.
- 9.1.1(b) – Disposition or acquisition of assets.
- 9.2.1(a) – Material Transactions with Related Parties.
- 10.4.2, 10.5.1(b) – Contents required for Preliminary Announcement and Annual Report.
- 10.5.2 – Half-yearly reporting requirements.
- 10.8.1(a) – Notification of subdivision, consolidation or issue of securities.
- 11.1.1 – Restrictions on Transfers.
- 11.2.3 – Statements after Issues or Transfers.
- 11.1.5 – Approval for restrictions in Trust Deed.
- Appendix 2 – Minimum Holding.



Independent Auditor's Report

To the Unitholders of NZX Australian 20 Leaders Index Fund

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of NZX Australian 20 Leaders Index Fund ("the Fund") on pages 70 to 80. The financial statements comprise the balance sheet as at 31 March 2012 and the statements of comprehensive income, changes in unitholders funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationship with, or interests in, the Fund.

Opinion

In our opinion the financial statements of NZX Australian 20 Leaders Index Fund on pages 70 to 80:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Fund as at 31 March 2012 and of its financial performance and cash flows for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by NZX Australian 20 Leaders Index Fund as far as appears from our examination of those records.

28 May 2012

Wellington

Corporate Governance

The Issuer of the Funds is the Manager, Smartshares Limited. The role of the Manager and its Board in relation to the management of the Funds is unlike the role of a Board in relation to the management of the business and affairs of a listed company. The Trust Deeds for the Funds contain detailed provisions about the investment of the Funds' money and the role of the Manager of the Funds. The Manager of the Funds has no role in making strategic business decisions in relation to the Funds, and no discretion as to the how Fund assets may be invested. The nature of the business of the Funds is solely the investment in a clearly defined set of securities. The Trust Deeds set out what securities can be acquired and in what circumstances those securities must be acquired and sold. Given that the Trustees maintain a regime of oversight to ensure the Manager's compliance with the detailed provisions of the Trust Deed the Manager has not adopted a code of ethics in respect of the Funds.

For the reasons set out above, much of the Corporate Governance Best Practice Code (Code) set out in Appendix 16 of the Listing Rules is not appropriate to the Manager of the Funds. This section describes the current practices of Smartshares Limited relating to corporate governance matters. It differs from the Code in a number of ways for the reasons set out above.

THE BOARD

The Board is currently comprised of four executive Directors: Kathryn Jaggard (Chair), Rowan Macrae, Erich Livengood and Kristin Brandon. All of the Directors are employees of NZX Limited (NZX). None of the Directors are Independent Directors as defined in the NZSX Listing Rules. Services are provided to Smartshares Limited by employees of NZX. The Board is responsible for the direction and supervision of the business and affairs of the Manager and its management of the Smartshares Funds.

COMMITTEES

The Board of the Manager has one committee, an Audit Committee, comprising Neil Paviour-Smith (Chairman), Chris Moller (both Independent Directors of NZX) and Erich Livengood. In March 2011, the Board resolved to adopt formal Audit Committee Terms of Reference, which sets out the Audit Committee's role in assisting the Board with financial reporting and audit matters, and contemplates that the Audit Committee will meet at least once annually.

Smartshares Limited has been granted a waiver from the requirements in Listing Rules 3.3.1(c), 3.6.2(a) and

3.6.2(c) for the Board to have Independent Directors and to enable the Audit Committee to include Independent Directors from Smartshares Limited's parent company, NZX.

The waivers were granted on the conditions that:

- ▶ There is an Audit Committee in place for each Fund;
- ▶ The waivers and the conditions are outlined in each Fund's Half Yearly and Annual Reports;
- ▶ At least one of Smartshares Limited's Directors sits on Smartshares Limited's Audit Committee for the Funds, whenever it convenes;
- ▶ Smartshares Limited's Audit Committee for each Fund has a majority of Directors who are Independent Directors of Smartshares Limited, or Independent Directors of NZX, or both;
- ▶ Every Independent Director of NZX that sits on Smartshares Limited's Audit Committee for each Fund must provide the Special Division with written certification that they accept the obligations and responsibilities of an Audit Committee imposed by the Listing Rules in relation to the Fund;
- ▶ The Audit Committee for each Fund has full powers to require Smartshares Limited to provide any information or documents relating to any Fund which it requires to enable it to meet the obligations of an Audit Committee;
- ▶ The Directors of Smartshares Limited must respond to any recommendations made to its Board from the Audit Committee for each Fund; and
- ▶ The nature of each Fund's business and its operations do not materially change.

Following the introduction of securities lending, the Special Division of the NZ Markets Disciplinary Tribunal reviewed these waivers and confirmed in a decision dated 21 February 2012, that the waivers should continue to apply to Smartshares Limited.

Smartshares Limited has no remuneration or nomination committee. There is no nomination committee as the Manager is a wholly-owned subsidiary of NZX, which appoints the Board of Directors of the Manager. There is no remuneration committee as no Director receives any remuneration directly from Smartshares Limited, and the Board of Smartshares Limited consists of only four Directors. The Manager is entitled to remuneration in respect of management of the Funds. Information about the remuneration received by the Manager for the financial year ended March 2012 can be found in the financial statements for the Funds set out in this report.